

Oil & Gas

MBR 2026: A Key Enabler Towards 2m BOEPD Goal

Highlights

- **MBR 2026 to explore new frontiers** in unlocking the full potential of Malaysia's basin. A positive surprise was that local production increased to about 1.9m boepd in 2025 despite 1H25 setbacks. While the long-term sustainable target remains at 2m boepd, the increased funnel of field development plans that are made possible through the collaboration of new PSCs, innovations and simplifications, are showing results. The ambitious scope of this collective achievement of energy security will soon include borderless PSC collaborations. Upscaling the ecosystem is crucial for this to work. This is consistent with the Petronas Activity Outlook (PAO) 2026-28.
- **Key beneficiaries.** With an estimated RM50b-60b upstream capex necessary to sustain local upstream industry, it was revealed that PSC work commitments for 2026/27 are RM57b/RM67b respectively. This is somewhat contrary to PAO which moderated the ecosystem's prospects. We think time will tell which among them will emerge as the reliable leading indicator for the sector's catalyst. Having said that, we see Dialog as the key standout to benefit from not only securing PSCs, but also advancing in most of them. Other beneficiaries include MISC (FPSOs), MMHE (FPSO conversion), Hibiscus (cross-border collaboration for CO2 management), and Uzma (seismic acquisition). Maintain MARKET WEIGHT.

Analysis

- **MBR2026: Launched to sustain upstream investments for local energy security.** Continuing upon the success of the previous MBR, MBR 2026 promises to push boundaries, collaborations and innovations to invest deeper and unlock the full potential of Malaysia's basins. This had revived participation of international oil majors such as TotalEnergies, which debuted in Malaysia with two fields in 2023, and has about 18 fields today.
- **An estimated RM50b-60b in upstream capex p.a.** is necessary to sustain the local upstream engine to achieve the long-term goal of 2m boepd production (2025: almost 1.9m boepd). Although the needle movement seems to be small, the key overlooked factor here is that 75% of that production is from gas. Petronas remains focused on high-return portfolios or "Advantaged Energy", a term coined by Petronas. This year, and consistent with the key message delivered in Petronas Activity Outlook 2026-28, Petronas emphasises the critical need to focus on shaping the "Advantage Ecosystem", ie, a resilient supply chain network led by true champions (companies).

MARKET WEIGHT (Maintained)

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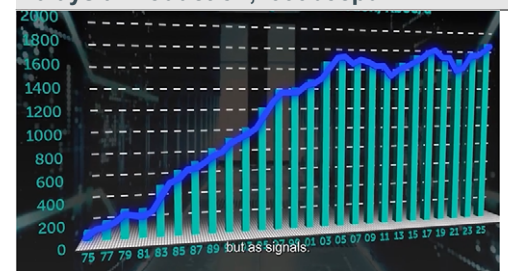
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Big Players In Malaysia's New Upstream Landscape

Company	Role	Share Price (RM)	Target Price (RM)
MISC	FPSOs	8.20	8.70
MMHE	FPSO conversion	0.36	0.50
Dialog	Fast-track PSCs	1.79	2.70
Hibiscus	CO2 collaboration	1.69	Na
Uzma	Seismic acquisition	0.41	0.76
Velesto	Exploration Rig	0.32	0.35

Source: Bloomberg, UOB Kay Hian

Malaysia Production, '000boepd



Source: Petronas

Peninsular Malaysia Gas Demand, MMscfd



Source: Petronas

Peer Comparison

Company	Ticker	Rec*	Price 20 Feb 2026 (RM)	Target Price (RM)	Last Year End	Market Cap. (RMm)	2024 (x)	PE 2025F (x)	2026F (x)	Price/ BV ps (x)	ROE 2025F (%)
Bumi Armada	BAB MK	BUY	0.32	0.40	12/24	1,897	2.0	3.8	4.4	0.3	4.4
Dialog Group	DLG MK	BUY	1.79	2.70	6/25	10,106	24.9	21.7	20.8	1.9	7.4
Deleum	DLUM MK	BUY	1.20	1.55	12/24	482	6.5	5.9	5.1	1.0	20.3
MISC	MISC MK	BUY	8.20	8.70	12/24	36,603	15.9	13.9	12.4	1.0	6.3
MMHE	MMHE MK	BUY	0.36	0.50	12/24	576	5.0	6.7	6.6	0.4	20.8
Petronas Dagangan	PETD MK	HOLD	20.96	23.20	12/24	20,823	18.7	17.5	18.9	3.3	10.0
Uzma	UZMA MK	BUY	0.41	0.76	6/25	244	5.6	4.4	4.2	0.4	10.1
Velesto Energy	VEB MK	HOLD	0.32	0.35	12/24	2,588	12.8	14.6	22.1	0.7	11.5
Yinson Holdings	YNS MK	BUY	2.37	3.10	1/25	7,626z	15.7	9.0	8.6	1.4	12.7

Source: Bloomberg, UOB Kay Hian

- **We concur on the goal of enabling and upscaling the Ecosystem**, as Petronas also strives to revolutionise PSCs towards borderless collaborations, which may entail multiple PSCs across Southeast Asia (beyond just Malaysia), including elements like Carbon Capture, all managed as one connected system. Such grand ambitions may be necessary to address a longer-term issue of Peninsular Malaysia's gas demand, set to double from 2,300 MMscfd in 2026, to 5,196 MMscfd in 2035.
- **Maintaining confidence from project partners is also imperative.** For now, Petronas is cognisant that the local ecosystem must be ready and on board as well. How Petronas will execute the "Advantage Ecosystem" into action will determine future sector catalysts – whether a successful coordinated industry consolidation will be necessary, or an unfriendly involution. While this remains to be seen, having the confidence from its PSC partners is important and is shown clearly, via the work commitments submitted for 2026 at RM57b, and may increase to RM67b by 2027.
- **Technology pitching by geology and floating solution providers.** The latter comprised primarily Floating, Production, Offloading and Storage (FPSO) experts that can offer tailored FPSO solutions for marginal fields or late life assets. This included: a) foreign FPSO specialist Sevan which pioneered the cylindrical hull design, b) Japan's Global FCNG Inc that specialised in Compressed Natural Gas Carriers (CNGC), and c) MISC which featured its end-to-end floating solutions. We note that Global FCNG had 2023 committed RM500m of investment for a gas project in Sipitang O&G Park alongside Sabah O&G Development Corp (SOGDC) in 2023.

Valuation/ Recommendation

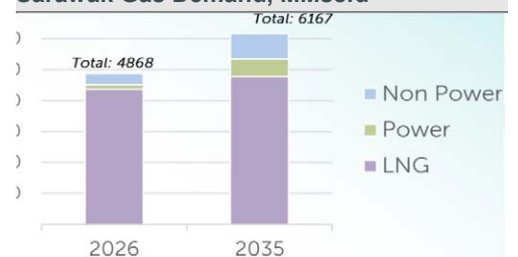
- **We maintain MARKET WEIGHT as near-term risks persists.** We are bullish on Petronas' renewed focus on the OSGE sector in the long term, but opine that it will not be meaningful in the near term. On a macro level, the consensus oil price expectation of US\$60/bbl is still bearish for the 1H26 horizon. Locally, the Petronas-Petros disputes remain at an impasse, now extending to the Bintulu LNG complex, contributing to a material earnings risk for 1H26. Our stock calls are more reflective of long-term valuations, but our unchanged sector call assumes discounts on sector valuations will persist through 1H26. We advise adopting a wait-and-see approach until a clear resolution is achieved (target date: 10 Mar 26).
- **Top pick: MISC (MISC MK/BUY/Target: RM8.70).** We chose MISC as our top pick as it is a stable dividend play. While MISC is not yet out of the woods in terms of LNG fleet expiries, none of them are expected to materialise in 2026. Alternatively, investors can consider **Malaysia Marine And Heavy Engineering Holdings (MMHE MK/BUY/Target: RM0.50)** which is trading at a cheaper P/B but its long-term targets are more aligned with MISC's. Both companies are key beneficiaries for services to support new PSCs awarded under MBR.
- **Dialog (DLG MK/ BUY/ Target: RM2.70), the new "Upstream Champion".** When SapuraKencana used to be regarded as the local upstream champion for gas fields, we see Dialog emerging as the new local champion. It benefits the most from new, flexible PSC terms that are already enabling quicker monetisation pathways. For example, the Baram Junior Cluster will soon see the sailaway of its first wellhead platform. The Mutiara Cluster, which was awarded in MBR 2025, moved very swiftly to lock in a state-level gas sales agreement for gas supply from 2029 onwards, which also shows Mutiara is of strategic importance to Sabah's energy security.
- **Hibiscus (HIBI MK/Not Rated): New collaboration accelerates Hibiscus' ESG pathways.** While Petronas roping in Hibiscus (as the PSC operator for PKNB Cluster) within its larger PSC cross collaboration for CO2 management (alongside the BIGST and TB PSCs) does not directly translate to incremental

Sabah Gas Demand, MMscfd



Source: Petronas

Sarawak Gas Demand, MMscfd



Source: Petronas

MBR 2026: In The Spotlight

- On 10 Feb 26, Petronas' Malaysia Petroleum Management (MPM) division launched Malaysia Bid Round (MBR) 2026, a licensing exercise that offers **nine exploration blocks** and **six discovered resource opportunities (DRO)**.
- MPM's chief Bacho Piong said **RM50b-60b in investments** p.a. is required to sustain Malaysia's upstream engine.
- Despite production setbacks seen in 1H25, Malaysia achieved higher production in 2025 at close to 1.9m boepd. For the months of Nov and Dec 25, local production exceeded 2m boepd.
- Submitted by PSC players, **work commitments for 2026 are estimated at RM57b**.
- For 2027, **work commitments may increase to RM67b**.
- Malaysia has Superbasins on offer shaped by world-class geology, which has produced more than 23b barrels.
- Demand-wise, Malaysia is also at the centre of energy demand. By securing the highest data centre investment in the region in 2025, by 2030 the power requirement may take up to about 4GW power requirement.
- "Advantaged Energy" is a term coined by Petronas, referring to energy produced at low-carbon, low-cost, and with viable commercial return.
- **Petronas Carigali** has its own targets of achieving production cost/ barrel at US\$6/bbl at US\$50/bbl oil price.
- Petronas now emphasises the critical need to focus on shaping the "Advantage Ecosystem", with the hopes of achieving a resilient supply chain network led by true champion (companies).
- Another new term coined by Petronas (or a new goal) is "A-B-C", referring to **Agreement For Borderless Collaborations**. Aspires to be the first in the region to offer Production Sharing Contracts (PSC) on a borderless level, and as one connected system.
- **A-B-C: can be expanded beyond the country** to cover neighbouring countries PSCs including Brunei, Indonesia, Malaysia and Philippines, coined as **BIMP** by Petronas.
- **A-B-C: can encompass multiple projects at once**, for example integrating Carbon Capture Storage elements. Three PSCs are now considered as one connected system: Firstly, the BIGST PSC. Second project involves Hibiscus' Pertang, Kenarong, Noring, and Bedong (PKNB) PSC. And last but not least, Carigali's Tangguh Barat (TB) PSC.
- These PSCs will be collaborated and enhanced together to optimise resources and commercial viability of the CO2 management solutions. Petronas believes this borderless arrangement is necessary to enable production of 500mscf of gas for Peninsular Malaysia's gas demand.

Source: Petronas

SOP for Hibiscus, it may be a significant benefit to its ESG pathways on decarbonisation in our view.

Sector Catalyst/Risk

- MISC (BUY/ Target: RM8.70): Beneficiary of local FPSO opportunities.**
 MISC prominently featured its successful Marginal Marine Production Unit (MaMPU-1), essentially a FPSO of 15,000 bpd capacity tailored for marginal fields. MaMPU-1 just achieved a 10-year milestone in the Kayu Manis field (offshore Sarawak) for Vestigo for a 11-year lease that started in 2016. In 2019, MaMPU-1 was retrofitted with an additional module that supports marginal/stranded fields. Its Aframax tanker Eagle Louisiana, which served as a Modular Capture Vessel for 20 years since 2014, is also readily available for FPSO conversion. This counts among the 16-18 Aframax vessels in its fleet that are all potential candidates for FPSO conversion.
- MMHE (BUY/ Target: RM0.50): Yard of choice for new offshore solutions.**
 We assume that the new PSC licenses awarded since MBR 2021 may encourage O&G operators to increasingly favour smaller/ modular and cost-effective platform designs. This brings a fair level playing field for all five Petronas-licensed yards, but Sarawak yards are seen as the top beneficiary for demand for new fixed wellhead platforms. However, a higher-than-expected demand of new floating solutions can be a major catalyst for MMHE given its track record for past FPSO conversions and retrofits. Multiple conversion projects can boost profit margins for its recurring marine repair division.
- Low risk of new local competition in the FPSO space.** At this juncture, we do not foresee the likes of Bumi Armada (which is focused on its Indonesia upstream and floating solutions expansion) and Yinson (executing many international projects and unlikely to rechannel any fresh capital for major local FPSO demand) to be potential threats. A private local FPSO player, MTC Engineering, was recently ranked among the top 10 global FPSO players by Blackridge Research. During MBR 2026, A memorandum was signed between Global FCNG, ZDA Corporation (a rotating equipment specialist) and MTC Engineering. We assume that MISC is not likely to be keen on the local CNGC industry development, which may be spearheaded by MTC.

Cost threshold, in US\$/MMBtu

Vessel	Feature	Threshold
Compressed Natural Gas Carrier (CNGC)	• Compressed (Ambient temperature); short distances (300-400km)	25
Small scale LNG (SSLNG) vessel	• Liquefied (at -162°C); longer distances	18-20
Diesel-engine / dual-fuel LNG vessels	• Commonly 2-stroke/ 4-stroke, or High Pressure Dual Fuel (HPDF)	14-15

Source: PT PLN (Persero)

MBR 2026: Achievements To Date, And Blocks On Offer

Commitments that became Action

14 exploration wells drilled

Sandakan seismic acquisition fully completed and unlocked, Langkasuka and Tawau programmes planned for 2026

26 Field Development Plan (FDP) and 3 Field Development And Abandonment Plan (FDAP) approvals delivered

20 First Hydrocarbon Milestones achieved

9 Exploration Blocks	Area	Bid Closing Date	Comments
PM440, PM447, PM448 PM519, PM520	Malay Basin	30 Sep 2026	Shallow Water Enhanced Profitability Term (EPT) PSC. Since 2021, this replaces the 1997 Standard Revenue Over Cost (R/C) PSC terms. Key changes were the removal of Supplementary Payment, Threshold Volume, and Petronas Carigali Carried Interest. This enhances the role of the Profitability Index (PI) as the balancing mechanism for determining profit sharing between contractors and Petronas.
SK331, SK330, SK404	Sarawak Basin	30 Sep 2026	
SB304	Sandakan Basin	30 June 2027	
6 DRO Clusters, fields	DRO Cluster	Bid Closing Date	Comments
Saujana, Serok, Semangkok NAG, Semangkok Timur	Cempaka, Malay Basin	3 Aug 2026	Small Field Asset (SFA) PSC. Designed for simpler and effective monetisation of small fields. At the same time it provides flexibility for the operator to optimise operational costs and maximise the profit margin.
Sotong, Malong, Anding, Aji Aji., Sentang, Parang, Naga Kecil, Naga Dalam	Teratai, Malay Basin	3 Aug 2026	
Salam, Benum, Patawali, Gagau	Enggang, Sarawak	3 Aug 2026	
Nuang, Rompin, KT1 Endau, Mahkota, E2 Serunai	NURI (Funnel), Sarawak	3 Aug 2026	
Trusmadi, Madalon, Papar, Padas, Grafit	Nilam, Sabah	3 Aug 2026	
Tembungo, Sipadan, South West Emerald, Danum, Rusa Timur	Zamrud (Funnel), Sabah	1 Oct 2026	

Source: Petronas

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